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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16974
December 15, 2005**

R E S O L U T I O N

Resolution T-16974. Verizon California Incorporated (U-1002-C). Request for Approval of Price Cap Mechanism, In Compliance with Decision 89-10-031 and Decision 94-09-065, and Corresponding Adjustments to Surcharges which will be Effective on January 1, 2006.

By Advice Letter No. 11,308 Filed on October 3, 2005.

Summary

This Resolution authorizes Verizon California, Inc. (Verizon) to increase its annual revenues by \$390,000 effective January 1, 2006. The adopted revenue adjustments and surcharge changes are shown in Appendices A and B attached to this resolution.

Verizon requested an annual revenue increase of \$390,000 due to the impacts of a one-time limited exogenous (LE) factor adjustment for Gain on Sale of Land and other adjustment of Intervenor Compensation.

Background

In Decision (D.) 89-10-031 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for SBC Telephone Company (formerly known as Pacific) and Verizon California Incorporated (formerly known as GTE California Incorporated or GTEC). Prices and rate caps for services would be indexed annually according to an inflation factor, the Gross National Product Price Index (GNP-PI), and reduced by a productivity adjustment.

The indexing formula also allowed rate adjustments for a limited category of exogenous cost changes that were beyond the control of utility management, called Z-factors,

DRAFT

whose effects are not reflected in the GNP-PI. Only specific types of costs were considered Z-factors: changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

The Commission did not authorize Z-factor treatment for all unforeseen or exogenous factors. Normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would not be afforded Z-factor treatments.

The price cap indexing formula adopted in D. 89-10-031 has been modified. In D.93-09-038, the Commission ordered GTEC to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI). In D.94-09-065, the Commission authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

In the second NRF review, the Commission issued D.95-12-052 whereby the inflation and productivity factor elements (GDP-PI minus productivity factor) of the indexing mechanism were suspended.

In the third NRF review, the Commission issued D.98-10-026. The order continues the suspension of the GDP-PI minus productivity factor formula, suspended the sharing mechanism, permanently eliminates the depreciation review, continues rate caps on residential services by keeping all rate caps and floors, and replaces Z-factors with limited exogenous (LE) factors.

LE cost recovery was confined to recovery for cost increase or decreases resulting from: (1) items mandated by the Commission and (2) changes in total intrastate recovery resulting from changes between federal and state jurisdiction. Recovery of Commission mandated cost changes must be authorized in the underlying Commission Decision.

The Commission opened the fourth triennial review of NRF for SBC and Verizon on September 6, 2001 via a combined Order Instituting Rulemaking R.01-09-001 and Order Instituting Investigation I.01-09-002. Phase 1 of the review focused on a regulatory audit of Verizon that addressed accounting, cost allocation, affiliate transactions and Yellow Pages directory ratemaking issues.

Verizon's Price Cap Filing

On October 3, 2005, Verizon California Inc. filed Advice Letter No.11308 requesting billing surcharge changes to be effective January 1, 2006 in order to implement one-time and other revenue adjustment for 2006.

DRAFT

Verizon California Inc.'s filing requests the following revenue adjustment.

1. **Excess Gain on Sale of Land** **-\$280,000**
This is a one-time adjustment to reflect the gains of sale of land.
2. **Intervenor Compensation** **\$669,000**
This is an adjustment to reflect recovery for participation or intervention in Commission Proceedings.

Verizon California requests a total revenue increase of \$390,000 to become effective on January 1, 2006, that reflects the final year of the GTE-Bell Atlantic merger compliance adjustments ordered in D.00-03-021. Verizon used an annualized billing base of \$1,623,745,000 for calculating the surcredit effective January 1, 2006.

Notice/Protest

Verizon California Inc. stated that a copy of the advice letter was mailed to interested utilities and/or parties. Notice of Advice Letter No.11308 was published in the Commission Daily Calendar on October 5, 2005. No protests to this advice letter were filed.

Discussion

Gain on Sale of Land

In its Annual Earnings Report filed in AL No.11134, Verizon reported Gain on Sale of Land in excess of the \$4 million allowed in Decision 93-09-038. Per the decision, Verizon is required to include an adjustment in this Price Cap filing to effect a temporary rate reduction in the form of a surcredit adjustment to its Schedule A-38 Billing Adjustment tariff.

Verizon identified an approximate total gain on sale of land in the amount of \$4,280,000, and consistent with D.93-09-038, proposes to refund to ratepayers \$280,000. The Telecommunications Division recommends the adoption of Verizon's request to refund to ratepayers through a one-time adjustment of -\$280,000 for the gain on sale of land.

Intervenor Compensation Recovery

DRAFT

Resolution T-15821 held Verizon's request for Intervenor Compensation recovery in abeyance until TURN's application for rehearing of D.94-09-022, where SBC requested for Intervenor Compensation recovery. D.96-04-063 concluded that SBC is entitled to Z-factor recovery of intervenor compensation awards, citing Public Utilities Code Section 1807. With resolution T-16265 and T-16913, SBC has been granted authority to recover its intervenor compensation. Verizon believes that it should be afforded the same treatment under NRF, since P.U. Code section 1807 applies to both Verizon and SBC.

The Telecommunications Division recommends the adoption of Verizon's request to recover intervenor compensation through a one-time adjustment of \$669,000.

Price Floors

As with the previous year, in reviewing Verizon's tariffed prices against the price floors, TD observed that Verizon had services in which the tariffed price was below the price floor. Verizon explained that approximately 25% of these services are tied up in the Open Access Network Architecture Development (OANAD) proceeding which will set new price floors. Verizon stated that the other 75% are subject to the Uniform Regulatory Framework (URF) proceeding which will assess and revise the regulation of all telecommunications utilities in California except for small incumbent local exchange carriers (ILECs). Since these services are issues in Commission proceedings, we will defer requiring immediate price floor adjustments at this time.

Impacted of Adopted Changes

As a result of the \$390,000 revenue increase adopted here for 2006, customers will pay slightly more for telephone service in 2006 than they paid in 2005.

Telecommunication Division Recommendations:

The Telecommunications Division concludes that Verizon's Advice Letter No.11308 meets the requirements set forth in the Commission Orders and G.O. 96-A and recommends that the Commission approve this filing by resolution.

Commission approval is based on the specifics of the Advice Letter and the associated contract, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311 (g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

DRAFT

Findings

1. Verizon filed Advice Letter No.11308 on October 3, 2005 to implement Verizon's 2006 price cap mechanism and a revenue adjustment:

Gain of Sale of Land	-\$280,000
Intervenor Compensation.	\$669,000

2. Verizon California requests to recover their annual revenues by applying a surcredit of -3.07% on intraLATA access services, a surcredit of -0.08% on intraLATA exchange and private line services and a surcredit of -2.26% on intraLATA toll services.
3. We find reasonable and adopt Verizon's request to refund the ratepayers through a one-time adjustment of -\$280,000 for the gain on sale of land.
4. We find reasonable and adopt Verizon's request to recover intervenor compensation through an adjustment of \$669,000.
5. A total price cap mechanism increase of \$390,000 is reasonable and should be made effective January 1, 2006.
6. No protest to this Advice Letter has been received.
7. We adopt TD's recommendation to approve Verizon's AL No.11308.

THEREFORE, IT IS ORDERED that:

1. Verizon California, Inc. shall increase its 2006 annual revenues by \$390,000 through one-time adjustments as adopted herein and reflected in Appendix B.
2. Verizon California shall implement billing surcredits reflecting the revenue increase ordered in Ordering Paragraph 1, applied to a total billing base of \$1,623,755,000: a surcredit of -3.07% on intraLATA access services, a surcredit of -0.08% on intraLATA exchange and private line services and a surcredit of -2.26% on intraLATA toll services to become effective on January 1, 2006, subject to review and approval by the Telecommunications Division.
3. The revisions to Verizon California, Inc's price floors filed in Advice Letter No.11308 are adopted and shall be implemented on January 1, 2006.

DRAFT

This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on December 15, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director

DRAFT

APPENDIX A
Resolution T-16974

Verizon California, Inc.
2006 Price Cap Filing

	Verizon Proposed Revenue Impacts	Adopted Impacts
One-Time Adjustments		
Gain on Sale of Land	-\$280,000	-\$280,000
One-Time Other Adjustments		
Intervenor Compensation	\$669,000	\$669,000
Total	\$ 390,000	\$390,000

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APPENDIX B
Resolution T-16974

Verizon California, Inc.
2006 Price Cap Filing
(Adjustments by %)

	Verizon Existing Surcredit	Verizon Proposed Surcredit	Adopted Surcredit
Access	-4.22%	-3.07%	-3.07%
Local	-1.23%	-0.08%	-0.08%
Toll	-3.41%	-2.26%	-2.26%